

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION
OF

DESERET MUTUAL INSURANCE COMPANY
OF
SALT LAKE CITY, UTAH

AS OF
DECEMBER 31, 2004



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August 26, 2005

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Chair, Financial Condition (EX4) Committee, NAIC
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Secretary, Western Zone, NAIC
Montana Department of Insurance
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Honorable D. Kent Michie, Commissioner
State of Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2004, has been made of the financial condition and business affairs of:

DESERET MUTUAL INSURANCE COMPANY
Salt Lake City, Utah

a mutual life insurance company, hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last financial examination of the Company was conducted as of December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2004. Material assets were valued and ownership verified. Liabilities were determined in accordance with laws, rules, and procedures prescribed by the state of Utah. The examination was conducted in accordance with generally accepted standards and procedures of

regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided requested working papers prepared in connection with its audits.

A letter of representation certifying management disclosed all significant matters and records was obtained from management and included in the examination working papers.

The examiners relied on the findings of the actuary firm employed by the Utah Department of Insurance (the Department) to verify life insurance premiums and annuity considerations deferred and uncollected on in force business and the aggregate reserve for life policies and contracts. The actuary tested the completeness of the records and the accuracy of the underlying data used to establish reserve amounts.

Status of Prior Examination Findings

Adverse findings noted in the prior report of examination were addressed by the Company or were identified as repeat exceptions in this report. This examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC).

HISTORY

General

On January 14, 1969, the Company was organized as Far-West Mutual Life Insurance Association pursuant to Utah Insurance Code Title 31, Chapter 30. In 1970, the Corporation of the President of The Church of Jesus Christ of Latter-day Saints and affiliates, assumed control of the Company upon issuance of Company insurance contracts to them. The name of the Company was then changed to Deseret Mutual Benefit Association. Since then the Company has had other name changes. As of December 4, 1987, the name of the Company became "Deseret Mutual Insurance Company."

The bylaws were amended, restated and approved by the board of directors on August 22, 2002, with no significant changes noted. The Company did not comply with U.C.A. § 31A-5-203(4), which requires amendments to the bylaws to be filed with the commissioner within 60 days after their adoption. The Company took corrective action during the examination by filing the amended and restated bylaws on March 18, 2005. No changes were noted in the articles of incorporation.

Membership

The articles of incorporation provide that the Company is a mutual insurance company, owned and operated for the exclusive benefit of its members.

Dividends to Members

The Company neither declared nor paid any dividends during the examination period.

Management

The members of the board of directors of the Company, as of December 31, 2004, were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Rodney H. Brady Salt Lake City, Utah	President and Chief Executive Officer Deseret Management Corporation
Harold C. Brown Salt Lake City, Utah	Welfare Services Managing Director Corporation of the President
Kent H. Cannon Salt Lake City, Utah	President and Chief Executive Officer Beneficial Financial Group
Roger G. Christensen South Jordan, Utah	Administrator, Finance and Services Church Educational System
Brad Farnsworth Provo, Utah	Administrative Vice President Brigham Young University
Clinton R. Gurney Salt Lake City, Utah	Managing Director, Human Resources Corporation of the President
Robert A. Johnson Salt Lake City, Utah	Executive Vice President and Chief Operations Officer Bonneville International Corporation
Michael 'J' Stapley Bountiful, Utah	President and Chief Executive Officer Deseret Mutual Insurance Company
Jim M. Wall Salt Lake City, Utah	President and Publisher Deseret News Publishing Company

Officers of the board of directors serving at December 31, 2004, were as follows:

<u>Name</u>	<u>Title</u>
Rodney H. Bradey	Chairman of the Board
Clinton R. Gurney	Vice Chairman
Victor N. Gibb	Secretary

Officers of the Company as of December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Michael 'J' Stapley	President and Chief Executive Officer
Victor N. Gibb	Senior Vice President, Chief Legal Counsel
Stephen A. Felsted	Vice President, Chief Financial Officer
David D. Call	Vice President
Kent A. Misener	Treasurer and Chief Investment Officer
Scott C. Thorton	Chief Actuary
David K. Ferre*	Controller

*During January 2005, David K. Ferre retired and was replaced by David K. Anderson.

Committees of the Company as of December 31, 2004, were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>
Rodney H. Brady, Chairman	Brad W. Farnsworth, Chairman
Clinton R. Gurney, Vice Chairman	Roger G. Christensen, Vice Chairman
Robert A. Johnson	Clinton R. Gurney
Michael 'J' Stapley	

<u>Investment Committee</u>	<u>Budget and Funding Policy Committee</u>
Kent H. Cannon, Chairman	Rodger G. Christensen, Chairman
Robert A. Johnson, Vice Chairman	Brad W. Farnsworth, Vice Chairman
Rodney H. Brady	Dale G. Bailey
Ivan T. Call	M. Farrell Benson*
Robert R. Dalley	Michael 'J' Stapley
Brad W. Farnsworth	
Stephen A. Felsted	
Scott C. Florence	
Michael 'J' Stapley	

*M. Farrell Benson was replaced by Craig Christensen as a member of the Budget and Funding Policy Committee in 2005.

Conflict of Interest Procedure

The Company had an established procedure for disclosing to its board of directors any material affiliation on the part of its officers, directors, or responsible employees, which is likely to conflict with the individual's official duties. Each person was required to file an annual statement disclaiming or disclosing any material conflict of interest. No exceptions to the established procedure were noted by the examination.

Corporate Records

Minutes of the meetings of the members and minutes of the meetings of the board of directors were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors are properly informed of and participate in Company affairs. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting was presented and approved. The report of the examination of the Company generated by the Utah Insurance Department as of December 31, 2000, was distributed to the board of directors on December 13, 2001, in accordance with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company assumed health business from an affiliate. This assumed business was dissolved in 2003 (see additional commentary under the caption "Reinsurance"). The Company was not involved in any other acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

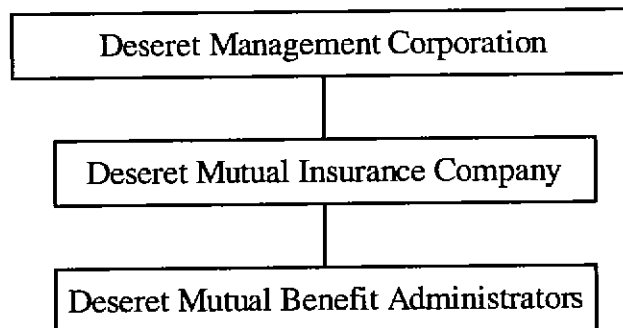
Surplus Debentures

No surplus debentures were issued or were outstanding during the examination period.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. Through common ownership, management, or control, the Company is affiliated with numerous entities within the holding company system. In 1996, the Department permitted the Company to file an abbreviated organizational chart, which excludes religious and educational entities with its holding company registration statements and annual statements. By order, dated October 22, 1998, the entity that is to be considered the ultimate controlling party or entity is Deseret Management Corporation.

The following organizational chart identifies the Company's relationship with its parent and subsidiary as of December 31, 2004:



Transactions with Affiliates

The Church of Jesus Christ of Latter-day Saints (the Church), is an unincorporated religious association overseen by the three members of the First Presidency. The First Presidency indirectly controls the Company by virtue of its power to appoint the trustees of DMC Reserve Trust. DMC Reserve Trust is a trust created by the Church. DMC Reserve Trust holds no assets other than the stock of Deseret Management Corporation. While DMC Reserve Trust holds all of the voting stock of Deseret Management Corporation and therefore may have an indirect ability to direct the policies and management of the Company, its sole purpose is to hold Deseret Management Corporation's stock in trust for religious, charitable and educational purposes. Deseret Management Corporation is the entity that has the direct ability to influence the management and policies of the Company.

The Company owns 100% of the common stock of Deseret Mutual Benefit Administrators (DMBA). The Company maintains an agreement with DMBA to provide administrative services to the Company for claims and benefit administration of plans offered by the Company. DMBA is a licensed third party administrator in Utah.

The Company maintains a custodial agreement with Deseret Trust Company, a subsidiary of the Church, to provide the Company a facility for settlement of transactions and deposit of securities for safekeeping.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$300,000 and \$350,000. The Company had fidelity coverage with a single loss limit of \$3,000,000 and a single loss deductible of \$50,000 as of the examination date.

The Company was also a named insured under policies providing property and liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and thus had no employees' benefit program or life and health insurance plans for employees.

STATUTORY DEPOSITS

The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Utah	USTBDS - Bond	\$ 1,050,000	\$ 1,650,510

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company insured individual and group annuity products, group life, accident and health and long-term disability benefits. The Company's health plan for senior missionaries was exempt from Title 31A regulation under U.C.A. § 31A-1-103(3)(c)(i), because its principal purpose was to achieve charitable, educational, social, or religious objectives.

Plan Z meets the definition of self-insurance under U.C.A. § 31A-1-301(143)(b)(ii), because the Church provides for spreading its own risks by a systematic plan and it indemnifies the General Authorities for liability or risk, which is related to their service not only as employees but also directors and officers. Therefore, Plan Z is exempt from regulation under U.C.A. § 31A-1-103(3)(f), because the title does not apply to self-insurance.

The Church spreads its own risks by a systematic plan, namely the Church Activity Insurance plan, which meets the definition of self-insurance under U.C.A. § 31A-1-301(143)(b)(ii), because the Church indemnifies the individuals who are involved in a church activity at a ward or branch from liability or risk. The arrangement indemnifies the affiliates for liability or risk that is related to the church activity. Therefore, the Church Activity Insurance plan is exempt from regulation under U.C.A. § 31A-1-103(3)(f), because the title does not apply to self-insurance.

Insurance benefits available to employees of The Church of Jesus Christ of Latter-day Saints (the Church) and its related organizations or corporations outside the United States, through various international employee benefit programs, were made available through an International Insurance Agreement (IIA). The types of coverage available under this agreement include medical, death, occupational accidental death and dismemberment, disability and twenty-four hour accidental death & dismemberment benefits. As of December 31, 2004, there were approximately 125 benefit plans or programs covered by this agreement. These plans are exempt under U.C.A. § 31A-1-103(3)(h) and § 31A-21-101(1)-(2), therefore, they fall outside the scope and purview of Title 31A and are not required to be filed with the Department.

The Company did not comply with U.C.A. § 31A-21-201(1), because the LDS Business College policy form was not filed with the commissioner. On August 5, 2005, the student member handbook was filed with the Department and it is pending review.

Underwriting consisted of criteria requirements and eligibility guidelines within the Company's covered plans. The Company's risk retention limits as of December 31, 2004, were as follows:

Accident and Health:

Limits

General Authority (medical and dental)	Unlimited
College Student Plans (basic and catastrophic coverage combined)	\$120,000
Church Activity	\$ 15,000
IIA Disability & Medical Coverage	Based on salary

Life:

General Authority	\$108,000
IIA	Based on salary

Territory and Plan of Operation

The Company was licensed in the state of Utah to provide the following lines of insurance: accident & health, annuity, life and variable contracts. It was licensed in disability, excluding managed care, in the state of Idaho, and accident and health in the state of Hawaii.

The Company's insurance contracts were with Utah based corporations, which may have covered members located in other jurisdictions. The Church had affiliates with employees located outside the state of Utah and beyond the territorial limits of the United States, who qualified as employees of the Church, its subsidiaries, affiliates, or other associated organizations.

Advertising and Sales Material

The Company did not solicit insurance sales to the general public, and it did not conduct any form of media advertising.

Treatment of Policyholders

The Company maintained control over policyholder complaints throughout the examination period. Procedures to handle complaints were in place. No formal complaints were filed with the Department during the examination period.

REINSURANCE

Assumed

As of the prior examination, the Company assumed accident and health business consisting of the Student Health Plan for Brigham Young University Hawaii. The assumed business was from an affiliate, Beneficial Life Insurance Company. During 2003, the Company no longer assumed any reinsurance arrangements.

Ceded

As of December 31, 2004, the Company maintained a medical catastrophe excess of loss reinsurance contract. The contract covered business as respects to employees covered by Deseret Healthcare, Employee Benefit Trust, Senior Service Medical Plan and employees covered by Plan Z of the Company. According to the contract, the reinsurer will be liable for the ultimate net loss over and above an initial ultimate net loss of \$1,500,000 each and every loss occurrence, subject to a limit of liability to the reinsurer of \$20,000,000 each and every loss occurrence. The maximum amount which may contribute to the ultimate net loss, any one life will be \$1,000,000. The reinsurer's liability shall never exceed \$20,000,000 in respect to any one loss occurrence and subject to the limit in respect of any one loss occurrence, shall be further limited to \$60,000,000 during each contract year.

As of December 31, 2004, the Company maintained a second medical catastrophe excess of loss reinsurance contract. This covered contract holders of Deseret Healthcare, Senior Service Medical Plan and Plan Z of the Company. The reinsurer is liable for the ultimate net loss over and above an initial ultimate net loss of \$21,500,000, subject to a limit of liability of \$15,000,000 each and every loss occurrence.

ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Most of the records were maintained on a mainframe electronic data processing system. Data from the mainframe was used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An examination trial balance, as of December 31, 2004, was prepared from an electronic copy of the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2004, and the results of its operations during the period under examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2004

SUMMARY OF OPERATIONS For the Year Ended December 31, 2004

RECONCILIATION OF CAPITAL AND SURPLUS - 2001 through 2004

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

DESERET MUTUAL INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2004

ASSETS

	Net Admitted Assets	Notes
Bonds	\$ 31,355,166	
Cash and short term investments	6,776,990	
Investment income due and accrued	551,339	
Current federal and foreign income tax recoverable and interest thereon	270,409	(1)
Net deferred tax asset	328,928	(2)
Electronic data processing equipment and software	75,142	
Total net admitted assets	<u>\$ 39,357,974</u>	

LIABILITIES

Aggregate reserve for life contracts	\$ 16,819,061
Aggregate reserve for accident and health contracts	2,706,102
Liability for deposit-type contracts	8,006,075
Life (contract claims)	59,445
Accident and health (contract claims)	1,986,623
Provision for experience rating refunds	3,617,429
Interest maintenance reserve	23,170
General expenses due or accrued	183,285
Taxes, licenses or fees due or accrued excluding federal income taxes	132,711
Asset valuation reserve	468,756
Other liabilities	20,295
Total liabilities	<u>34,022,952</u>

CAPITAL AND SURPLUS

Gross paid in and contributed surplus	6,000
Unassigned funds (surplus)	5,329,022
Total capital and surplus	<u>5,335,022</u>
Total liabilities, capital and surplus	<u>\$ 39,357,974</u>

DESERET MUTUAL INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Year Ended December 31, 2004

INCOME

	Amount	Notes
Premiums and annuity considerations for life and accident and health contracts	\$ 17,023,350	
Net investment income	1,969,978	
Amortization of Interest Maintenance Reserve (IMR)	46,241	
Other income	809,844	
Totals	19,849,413	

BENEFITS

Death benefits	461,172
Annuity benefits	1,728,246
Disability and death benefits under accident and health contracts	13,535,961
Interest and adjustments on contract or deposit-type contract funds	475,224
Payments on supplementary contracts with life contingencies	108,624
Increase in aggregate reserves for life and accident and health contracts	2,261,474
Totals	18,570,701

EXPENSES

General insurance expenses	2,547,648	
Insurance taxes, licenses and fees excluding federal income taxes	269,960	
Increase (decrease) in provision for experience rating refunds	(1,021,663)	
Experience rating refunds	784,223	
Total benefits and expenses	21,150,869	
Net gain from operations before federal income taxes	(1,301,456)	
Dividends to policyholders		
Net gain from operations after dividends to policyholders and before before federal income taxes	(1,301,456)	
Federal income taxes incurred	(413,728)	(1, 2)
Net gain from operations after federal income taxes and before realized capital gains (losses)	(887,728)	
Net realized capital gains or (losses)	34,357	
Net Income	\$ (853,371)	

DESERET MUTUAL INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2001 through 2004

	2001	2002	2003	Per Exam 2004	Notes
Capital and surplus, December 31, prior year	\$ 6,511,116	\$ 6,265,228	\$ 6,740,596	\$ 5,940,489	
Net income	(3,517,529)	877,899	(341,189)	(853,371)	
Change in net deferred income tax	219,119	187,645	903,294	284,324	(1,2)
Change in nonadmitted assets and related items	3,377,189	(613,042)	(1,405,219)	259	
Change in asset valuation reserve	(229,500)	22,866	43,007	(36,679)	
Cumulative effect of changes in accounting principles	(95,167)				
Net change in capital and surplus for the year	<u>(245,888)</u>	<u>475,368</u>	<u>(800,107)</u>	<u>(605,467)</u>	
Capital and surplus end of reporting year	<u>\$ 6,265,228</u>	<u>\$ 6,740,596</u>	<u>\$ 5,940,489</u>	<u>\$ 5,335,022</u>	(3)

NOTES TO FINANCIAL STATEMENTS

(1) Current federal and foreign income tax recoverable and interest there on \$270,409

The Company's reported federal income tax recoverable of \$50,000, was increased by \$220,409. The increase was attributed to a 2004 tax calculation adjustment in the estimated tax carry back.

(2) Net deferred tax asset \$328,928

The amount reported by the Company of \$294,576 was increased by \$34,352, as a result of a 2004 tax calculation adjustment.

(3) Capital and surplus \$5,335,022

The Company's capital and surplus was determined to be \$5,335,022, or \$254,761 more than reported for the year ended December 31, 2004.

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>	<u>Notes</u>
Current federal and foreign income tax recoverable	\$ 50,000	\$ 270,409	\$ 220,409	(1)
Net deferred tax asset	294,576	328,928	<u>34,352</u>	(2)
Total examination changes			254,761	
Total capital and surplus per Company			<u>5,080,261</u>	
Total capital and surplus per Examination			<u><u>\$5,335,022</u></u>	(3)

The Company's minimum capital requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. As of December 31, 2004, the Company reported total adjusted capital of \$5,549,017 and an authorized control level risk-based capital (RBC) requirement of \$462,928, as defined by U.C.A. § 31A-17-601. The examination accepted the Company's reported total adjusted capital and authorized control level RBC, because adjustments made for examination purposes would not have a significant effect on the RBC requirement.

SUMMARY OF EXAMINATION FINDINGS

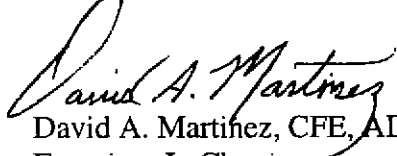
Items of significance commented on in this report are summarized below:

1. The Company did not comply with U.C.A. § 31A-5-203(4), which requires amendments to the bylaws to be filed with the commissioner within 60 days after their adoption. The Company took corrective action during the examination by filing the amended and restated bylaws on March 18, 2005. (HISTORY)
2. The Company did not comply with U.C.A. § 31A-21-201(1), because the LDS Business College policy form was not filed with the commissioner. On August 5, 2005, the student member handbook was filed with the Department and it is pending review. (INSURANCE PRODUCTS AND RELATED PRACTICES)
3. The current federal and foreign income tax recoverable and net deferred tax asset were increased as a result of a 2004 tax calculation adjustment. (NOTES TO FINANCIAL STATEMENTS)
4. For the year ended, December 31, 2004, the Company's capital and surplus was increased by \$254,761 to \$5,335,022. The Company's minimum capital requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. The Company reported total adjusted capital of \$5,549,017 and an authorized control level RBC requirement of \$462,928, as defined by U.C.A. § 31A-17-601. The examination made no adjustment to the total adjusted capital amount reported, because the adjustments to the balance sheet would not have a significant effect on the RBC requirement. (NOTES TO FINANCIAL STATEMENTS)

CONCLUSION

We acknowledge the assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company. In addition to the undersigned, Faanu Laufiso, Insurance Examiner, Colette Reddoor, CFE, Assistant Chief Examiner, and Tomasz Serbinowski, Ph. D., ASA, Actuary, representing the Utah Insurance Department, participated in the examination.

Respectfully Submitted,


David A. Martinez, CFE, AIE
Examiner In Charge
Utah Insurance Department